

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended June 30, 2008

CITY OF CLARE

CITY COMMISSION

Pat Humphrey	Mayor
Jean McConnell	Mayor Pro Tem
Bill Horwood	Commissioner
John Koch	Commissioner
Tom Koch	Commissioner

MANAGEMENT

Ken Hibl	City Manager
Kay Haven	City Clerk
Steven Kingsbury	Finance Director & Treasurer

CITY POPULATION–2000 CENSUS
3,173

STATE EQUALIZED VALUE–2007
\$101,412,200

STATE TAXABLE VALUE–2007
\$82,560,007

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2008**

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INDEPENDENT AUDITORS' REPORT

To the Members of the City Council
City of Clare
Clare and Isabella Counties, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Clare's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008, on our consideration of the City of Clare's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 41 through 44, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clare's basic financial statements. The combining financial statements on pages 45 through 48 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burnside & Long, P.C.

Midland, Michigan
December 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Clare's financial performance provides an overview of the City financial activities for the fiscal year that ended on June 30, 2008. Please read it in conjunction with the financial statements following this section.

The intent and objective of providing the management discussion and analysis is to provide the reader a quick summary of salient points and highlights of the City's financial statements while concurrently offering interested parties an appreciation of the City as a complex financial organization providing valuable services to the residents of Clare. The City continues to evolve in response to citizen desires, economic conditions, and decisions of the elected and appointed officials charged with governing the community.

The report presents information on both governmental activities and business-type activities. The governmental activities include the basic operations with City Hall, the Department of Public Works, the Parks and Recreation Department, Public Safety (police and fire protection), the City's airport, community development and related debt service and capital outlay. The business-type activities include the City's public utilities (water and wastewater).

Financial Highlights

- The City's combined net assets decreased by \$183,187 or 1.41% ending the fiscal year with a balance of \$12,848,897.
- The City's governmental activities net assets decreased by \$318,872 or 4.13% during the fiscal year with an ending balance of \$7,394,142.
- The business-type activities net assets increased \$135,865 or 2.55% to \$5,454,755 from continued positive operations of the City's water and sewer services.
- The City's undesignated General Fund Balance decreased \$144,904 or 14.44% from a balance of \$1,003,228 at the end of the preceding fiscal year to \$858,324 at the conclusion of the current fiscal year.
- Net assets of the City's Sewer Fund increased \$140,735 at the end of the current fiscal year with net assets totaling \$4,035,418. Similarly, the net assets of the Water Fund decreased slightly by \$5,050 to a fiscal year-end balance of \$1,419,337.
- The City's total outstanding debt (excluding component units) decreased \$327,677 or a considerable 10.49% with a fiscal year-end balance of \$2,796,556.
- At the close of the fiscal year the City's unrestricted net assets in its governmental activities was \$1,531,086, a decrease of \$338,802 or 18.12%. The unrestricted net assets in the City's business-type activities (water and sewer) were \$1,401,951 as of the end of the fiscal year, a slight decrease of \$36,955.

Overview of the Financial Statements

This annual report consists of these elements: management's discussion and analysis (this section); basic financial statements; and required supplementary information.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City government and report the City's operation in more detail than the government-wide statements.

Government-wide Statements

Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all government assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when the cash was received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets — the difference between the City's total assets and total liabilities — is one way to measure the City's financial health or position.

Over time, increases or decreases in the City's net assets are an indicator whether its financial health is improving or deteriorating, respectively. This section will become more significant in future years with data trends from multiple accounting periods.

To assess the overall health of the City one also needs to consider additional non-financial factors such as changes in the City property tax base, the economy and the rate of growth.

The government-wide financial statements of the City are divided into two categories:

Governmental activities — The City's basic services are included here and include police and fire protection, public works, parks, recreation, airport operations, community development, solid waste disposal, property assessment, finance and administration. Property taxes and state revenue sharing finance most of these activities. Fees for programs, licenses and permits are also a source of revenue.

Business-type activities — The City of Clare charges user fees to cover the cost of providing public water services and to finance the operations of the public wastewater utility operated by the City.

Fund Financial Statements

The fund financial statements provide detailed information about the City's significant funds. Funds are accounting categories that municipalities use to keep track of specific sources of funding and spending for particular purposes.

The City has three kinds of funds:

Governmental funds — Most of the City's basic services are included in governmental funds that focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, governmental fund statements tell how general government services such as public safety and public works are financed in the short term as well as what future spending remains. Because this information does not encompass the additional long-term focus of government-wide statements, additional information is provided at the bottom of the governmental fund statements to explain the differences between them.

Proprietary funds — Services for which the City charges users and other types of fees are reported in propriety funds. For the City of Clare these include public water and sewer services. Propriety fund statements provide short and long-term financial information about these activities that the City operates like a business.

Fiduciary funds — The City is a trustee, or fiduciary, for the collection of all property taxes for the City and for all taxing districts, including the local K-12 school district, the intermediate school district, a community college, two counties, and the State of Michigan. All the City's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the City's government-wide financial statements as these assets cannot be used to finance the operations of the city.

Financial Analysis of the City as a Whole

Net Assets — The City's combined net assets decreased by \$183,187 or 1.41% in the reporting period ending June 30, 2008. This table describes the net assets of the City. For complete, detailed financial statements refer to page nine.

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current assets	\$1,766,585	\$2,158,081	\$1,719,494	\$1,823,450	\$3,486,079	\$ 3,981,531
Capital assets	6,840,612	6,779,359	5,846,804	6,043,164	12,687,416	12,822,523
Total assets	8,607,197	8,937,440	7,566,298	7,866,614	16,173,495	16,804,054
Liabilities:						
Current liabilities	340,353	267,996	711,543	404,728	1,051,896	672,724
Long-term liabilities	872,702	956,430	1,400,000	2,142,816	2,272,702	3,099,246
Total liabilities	1,213,055	1,224,426	2,111,543	2,547,544	3,324,598	3,771,970
Net Assets:						
Invested in capital assets –						
Net of related debt	5,863,056	5,843,126	4,027,804	3,855,164	9,890,860	9,698,290
Restricted	-	-	25,000	25,000	25,000	25,000
Unrestricted	1,531,086	1,869,888	1,401,951	1,438,906	2,933,037	3,308,794
Total net assets	\$7,394,142	\$ 7,713,014	\$5,454,755	\$5,319,070	\$12,848,897	\$13,032,084

Changes in Net Assets

The City's 2007/2008 total revenues were \$5,190,164 and total expenses were \$5,375,922 resulting in an overall decrease of net assets of \$185,758. The following table shows the changes of net assets for the year ending June 30, 2008. For complete, detailed financial statements refer to page ten.

	Governmental Activities		Business-Type Activities		Total	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Program revenues:						
Charges for services	\$983,111	\$ 939,310	\$1,339,386	\$1,346,624	\$2,322,497	\$2,285,934
Operating grants and contributions	205,226	112,538	-	-	205,226	112,538
Capital grants and contributions	16,539	267,758	3,994	1,125	20,533	268,883
General revenues:						
Property taxes and related fees	1,522,170	1,441,751	-	-	1,522,170	1,441,751
Federal aid	229,937	-	-	-	229,937	-
State aid	596,647	681,986	-	-	596,647	681,986
Interest earnings	82,185	98,945	57,475	85,596	139,660	184,541
Other	45,988	56,908	110,078	183,253	153,494	240,161
Transfers	(35,319)	43,199	35,319	(43,199)	-	-
Total revenues	<u>3,646,484</u>	<u>3,642,395</u>	<u>1,546,252</u>	<u>1,573,399</u>	<u>5,190,164</u>	<u>5,215,794</u>
Program Expenses:						
General government	1,152,055	1,083,410	-	-	1,152,055	1,083,410
Public safety	1,183,289	1,009,458	-	-	1,183,289	1,009,458
Public works	748,417	761,770	-	-	748,417	761,770
Community development	211,477	194,842	-	-	211,477	194,842
Recreation and culture	426,516	390,869	-	-	426,516	390,869
Asset sales	172,050	-	-	-	172,050	-
Interest paid	71,551	-	-	-	71,551	-
Sewer	-	-	884,999	856,789	884,999	856,789
Water	-	-	525,568	548,088	525,568	548,088
Total program expenses	<u>3,965,355</u>	<u>3,440,349</u>	<u>1,410,567</u>	<u>1,404,877</u>	<u>5,375,922</u>	<u>4,845,226</u>
Change in net assets	(318,871)	202,046	135,685	168,522	(185,758)	370,568
Net assets – beginning	<u>7,713,013</u>	<u>7,510,968</u>	<u>5,319,070</u>	<u>5,150,548</u>	<u>13,032,084</u>	<u>12,661,516</u>
Net assets - ending	<u>\$7,391,572</u>	<u>\$7,713,014</u>	<u>\$5,454,755</u>	<u>\$5,319,070</u>	<u>\$12,846,326</u>	<u>\$13,032,084</u>

Governmental Activities

Revenues for the City's governmental activities totaled \$3,646,484, which equated to an increase in governmental activity revenues of \$1,517 from the previous year's revenues in this category.

Proprietary Funds

The City's business-type activities revenues decreased \$27,147 during this fiscal reporting period while total expenses increased \$5,690. Though revenues decreased and expenses increased the City's propriety funds total net assets increased \$135,685.

Financial Analysis of the City's Funds

As the City completed its fiscal year its governmental funds reported a combined fund balance of \$1,624,441, a decrease of \$146,752 or 8.28%.

General Fund Budgetary Highlights

A detailed General Fund budget is adopted by the City Council on an annual basis following a series of scheduled publicly held budget workshops and appropriately noticed public hearings. A number of budget amendments were made throughout the year to adjust or compensate for unanticipated operational and emergency-type expenses and to transfer funds from one operating fund to another.

The City's ending General Fund balance decreased \$133,161 or 12.33% to \$947,242.

Capital Assets

The City had net investments of \$12,687,416 in capital assets at the end of this fiscal reporting period. These assets include municipally-owned buildings and land, public safety equipment (police and firefighting equipment and vehicles), recreational facilities and water and sewer infrastructure (water towers, pump stations, underground distribution and collection systems, etc.). While the City has acquired the software to inventory its public roads and sidewalks, the actual inventory has not been completed. Once this task is fulfilled, the reported assets of the City will increase significantly.

Long Term Debt

At year end, the City (excluding its component units) had \$2,796,556 in outstanding bonds and notes, a decrease of \$327,677 from the previous fiscal year. Bond indebtedness is the result of bonds sold by the City to finance various public improvement projects over the years, to include the construction of wastewater treatment facilities, expansion of the existing sanitary sewer and water distribution systems and most recently the construction of a new public safety building.

Economic Factors and Next Year's Budget

Economic Factors

- Though state revenue sharing decreased during this fiscal year it continues to be a concern with potential downward trends being anticipated as the state government continues to work on its budget deficits. Elected officials and staff of the City of Clare recognize the impact that this issue could have on the City and therefore have continued to proactively increase other revenue sources, reduce overall debt and remaining vigilant in reducing overall expenses.
- A number of local industrial firms continue to make significant investments in their respective businesses in Clare – most notably, JD Metalworks, Letherer Truss, and Stageright have continued to make significant commitments to future expansion and further development of their existing manufacturing ventures. The City's primary industrial park is now at maximum capacity and additional property must be purchased to continue the City's future industrial development.
- The local housing market has remained relatively unchanged with only a handful of new housing starts during the City's fiscal year.
- The cost of employee health care is expected to continue to increase at a rate exceeding inflation.

2007/2008 Budget

The City adopted its 2008/2009 budget on June 2, 2008. Approved appropriations were commensurate with those of the City's 2007/2008 adopted budget. As a general rule, only consumer price index and labor contract mandated increases were made in the new budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide the citizens of the City of Clare, taxpayers, customers, investors and creditors with a general overview of the City's finances. It is intended to demonstrate the City's accountability for the funds it receives. If you have any questions about this report or would like additional information please contact City Manager Ken Hibl or Treasurer and Finance Director Steven J. Kingsbury.

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CITY OF CLARE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2008

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 382,465	\$ 24,309	\$ 406,774	\$ 566,240
Investments	1,025,000	1,200,000	2,225,000	-
Accounts and grants receivable, net	68,947	189,405	258,352	-
Assessments receivable, net	133,363	246,327	379,690	-
Due from other funds	103	-	103	-
Due from component units	5,150	-	5,150	-
Due from other governmental units	36,252	-	36,252	-
Inventory	30,280	21,660	51,940	-
Prepaid items	85,025	12,793	97,818	350
Restricted cash	-	25,000	25,000	-
Capital assets:				
Land	3,577,565	53,389	3,630,954	124,626
Land improvements, net	90,383	49,858	140,241	472,793
Buildings and improvements, net	1,882,509	1,733,318	3,615,827	-
Equipment, net	522,879	90,994	613,873	-
Vehicles, net	767,276	-	767,276	-
Infrastructure, net	-	3,919,245	3,919,245	-
Total capital assets	6,840,612	5,846,804	12,687,416	597,419
Total assets	8,607,197	7,566,298	16,173,495	1,164,009
LIABILITIES				
Accounts payable	11,844	2,370	14,214	-
Accrued expenses	71,082	28,321	99,403	-
Due to other governmental units	18,388	-	18,388	33,366
Deferred revenue	133,363	246,327	379,690	-
Deposits and other liabilities	822	15,525	16,347	-
Long-term liabilities:				
Portion due or payable within one year:				
Bonds and contracts payable	69,612	419,000	488,612	120,000
Capital leases	35,242	-	35,242	-
Portion due or payable after one year:				
Bonds and contracts payable	872,702	1,400,000	2,272,702	730,000
Capital leases	-	-	-	-
Total liabilities	1,213,055	2,111,543	3,324,598	883,366
NET ASSETS				
Invested in capital assets, net of related debt	5,863,056	4,027,804	9,890,860	37,419
Restricted for:				
Debt service	-	25,000	25,000	-
Unrestricted	1,531,086	1,401,951	2,933,037	243,224
Total net assets	\$ 7,394,142	\$ 5,454,755	\$ 12,848,897	\$ 280,643

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Governmental:								
General government	\$ 1,152,055	\$ 901,117	\$ -		\$ (250,938)		\$ (250,938)	
Public safety	1,183,289	49,595	178,348		(955,346)		(955,346)	
Public works	748,417	32,399	26,878		(689,140)		(689,140)	
Community development	211,477			16,539	(194,938)		(194,938)	
Recreation and culture	444,586			18,070	(426,516)		(426,516)	
Asset sales	172,050				(172,050)		(172,050)	
Interest paid	71,551				(71,551)		(71,551)	
Total governmental activities	3,983,425	983,111	205,226	34,609	(2,760,479)		(2,760,479)	
Business-type:								
Sewer	884,999	978,383	-	-		\$ 93,384	93,384	
Water	525,568	361,003	-	3,994		(160,571)	(160,571)	
Total business-type activities	1,410,567	1,339,386	-	3,994		(67,187)	(67,187)	
Total Primary Government	\$ 5,393,992	\$ 2,322,497	\$ 205,226	\$ 38,603	(2,760,479)	(67,187)	(2,827,666)	
Component units:								
Downtown Development Authority	158,632	-	2,000	172,136				\$ 15,504
Local Development Finance Authority	16,068	-	-	-				(16,068)
Total governmental-type activities	\$ 174,700	\$ -	\$ 2,000	\$ 172,136				(564)
General revenues:								
Property taxes and related fees					1,522,170	-	1,522,170	400,397
Federal aid					229,937	-	229,937	-
State aid					596,647	-	596,647	-
Interest earnings					82,185	57,475	139,660	7,966
Transfers					(35,319)	35,319	-	-
Miscellaneous					45,988	110,078	156,066	10,163
Total general revenues and transfers					2,441,608	202,872	2,644,480	418,526
Change in net assets					(318,871)	135,685	(183,186)	417,962
Net assets-beginning					7,713,013	5,319,070	13,032,083	(137,319)
Net assets-ending					\$ 7,394,142	\$ 5,454,755	\$ 12,848,897	\$ 280,643

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2008

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Department</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 202,997	\$ 784	\$ 6,568	\$ 17,371	\$ 127,083	\$ 354,803
Investments	450,000	-	25,000	200,000	275,000	950,000
Accounts and grants receivable, net	44,590	-	-	14,504	8,039	67,133
Assessment receivable, net	60,000	9,457	55,557	-	8,349	133,363
Due from other funds	215,103	-	-	-	-	215,103
Due from component units	5,150	-	-	-	-	5,150
Due from other governmental units	-	25,083	11,169	-	-	36,252
Inventory	23,396	-	-	2,567	-	25,963
Prepaid items	65,522	-	-	1,087	-	66,609
Total assets	<u>\$ 1,066,758</u>	<u>\$ 35,324</u>	<u>\$ 98,294</u>	<u>\$ 235,529</u>	<u>\$ 418,471</u>	<u>\$ 1,854,376</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 8,729	\$ 186	\$ 48	\$ 444	\$ -	\$ 9,407
Accrued expenses	31,577	1,815	2,865	31,554	144	67,955
Due to other governmental units	18,388	-	-	-	-	18,388
Deposits and other liabilities	822	-	-	-	-	822
Deferred revenue	60,000	9,457	55,557	-	8,349	133,363
Total liabilities	<u>119,516</u>	<u>11,458</u>	<u>58,470</u>	<u>31,998</u>	<u>8,493</u>	<u>229,935</u>
Fund balances:						
Reserved for:						
Inventories	23,396	-	-	2,567	-	25,963
Prepaid expenditures	65,522	-	-	1,087	-	66,609
Unreserved and undesignated	858,324	23,866	39,824	199,877	409,978	1,531,869
Total fund balances	<u>947,242</u>	<u>23,866</u>	<u>39,824</u>	<u>203,531</u>	<u>409,978</u>	<u>1,624,441</u>
Total liabilities and fund balances	<u>\$ 1,066,758</u>	<u>\$ 35,324</u>	<u>\$ 98,294</u>	<u>\$ 235,529</u>	<u>\$ 418,471</u>	<u>\$ 1,854,376</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2008

Total fund balances for governmental funds (Exhibit 4) \$ 1,624,441

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	3,577,565	
Land improvements, net of \$12,509 accumulated depreciation		90,383	
Buildings and improvements, net of \$775,503 accumulated depreciation		1,882,509	
Equipment, net of \$870,643 accumulated depreciation		522,879	
Vehicles, net of \$935,137 accumulated depreciation		<u>767,276</u>	
Total capital assets			6,840,612

The internal service funds (see Exhibit 6) are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds.

The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The internal service fund's unrestricted net assets (deficit) are: (93,355)

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2008 are:

Capital lease obligation	\$	(35,242)	
Installment purchase contracts		(197,314)	
2004 General Obligation Limited Tax Bond		<u>(745,000)</u>	<u>(977,556)</u>

Total net assets of governmental activities (Exhibit 2) \$ 7,394,142

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended June 30, 2008

	General	Major Street	Local Street	Fire Department	Other Governmental Funds	Total
REVENUES						
Property taxes and related fees	\$ 1,445,129	\$ -	\$ 57,784	\$ -	\$ 19,257	\$ 1,522,170
Licenses and permits	32,399	-	-	-	-	32,399
Federal aid	199,809	-	-	-	30,128	229,937
State aid	358,965	179,745	76,007	-	-	614,717
Charges for services	338,084	-	-	176,411	11,558	526,053
Interest and dividends	59,591	130	73	6,351	14,407	80,552
Rents and royalties	33,581	-	-	-	-	33,581
Fines and forfeits	16,112	-	-	-	-	16,112
Special assessments, net	20,589	1,570	16,215	-	4,946	43,320
Sale of assets	150,167	-	-	-	-	150,167
Donations	76,274	-	-	1,000	101,074	178,348
Miscellaneous	28,137	4,999	427	6,494	14	40,071
Total revenues	<u>2,758,837</u>	<u>186,444</u>	<u>150,506</u>	<u>190,256</u>	<u>181,384</u>	<u>3,467,427</u>
EXPENDITURES						
General government	619,668	-	-	-	-	619,668
Public safety	898,024	-	-	187,274	1,897	1,087,195
Public works	330,246	184,818	220,684	-	12,669	748,417
Community development	17,289	-	-	-	194,188	211,477
Recreation and culture	421,164	-	-	-	-	421,164
Capital outlay	276,796	-	-	-	-	276,796
Debt service	28,500	-	-	68,843	49,200	146,543
Total expenditures	<u>2,591,687</u>	<u>184,818</u>	<u>220,684</u>	<u>256,117</u>	<u>257,954</u>	<u>3,511,260</u>
Excess (deficiency) of revenues over expenditures	<u>167,150</u>	<u>1,626</u>	<u>(70,178)</u>	<u>(65,861)</u>	<u>(76,570)</u>	<u>(43,833)</u>
OTHER FINANCING SOURCES (USES)						
Transfers-in	35,000	-	90,000	99,272	62,800	287,072
Transfers-out	(335,311)	-	-	(19,680)	(35,000)	(389,991)
Total other financing sources and uses	<u>(300,311)</u>	<u>-</u>	<u>90,000</u>	<u>79,592</u>	<u>27,800</u>	<u>(102,919)</u>
Net change in fund balances	(133,161)	1,626	19,822	13,731	(48,770)	(146,752)
Fund balances-beginning	<u>1,080,403</u>	<u>22,240</u>	<u>20,002</u>	<u>189,800</u>	<u>458,748</u>	<u>1,771,193</u>
Fund balances-ending	<u>\$ 947,242</u>	<u>\$ 23,866</u>	<u>\$ 39,824</u>	<u>\$ 203,531</u>	<u>\$ 409,978</u>	<u>\$ 1,624,441</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
June 30, 2008

Net change in fund balances - total governmental funds (Exhibit 5)	\$	(146,752)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$276,796 was less than depreciation (\$306,219) and a loss on disposal (\$172,050) in the current period.		(201,473)
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Installment purchase contract	\$	27,000	
2004 General Obligation Limited Tax Bond		15,000	
Capital lease obligation		32,992	74,992

The internal service funds (see exhibit 7) are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. The net change of the internal service funds is reported within the governmental activities.		(45,638)
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Change in net assets of governmental activities (Exhibit 3)	\$	(318,871)
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The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF NET ASSETS
June 30, 2008

	Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 24,178	\$ 131	\$ 24,309	\$ 27,662
Investments	825,000	375,000	1,200,000	75,000
Accounts receivable, net	123,858	65,547	189,405	1,814
Assessments receivable	223,521	22,806	246,327	-
Inventory	10,785	10,875	21,660	4,317
Prepaid items	8,704	4,089	12,793	18,416
Total current assets	1,216,046	478,448	1,694,494	127,209
Noncurrent assets:				
Restricted cash	25,000	-	25,000	-
Capital assets:				
Land	10,757	42,632	53,389	85,000
Land improvements, net	49,858	-	49,858	-
Buildings and improvements, net	1,650,771	82,547	1,733,318	391,799
Equipment, net	87,743	3,251	90,994	155,761
Infrastructure, net	2,723,315	1,195,930	3,919,245	286,567
Total capital assets	4,522,444	1,324,360	5,846,804	919,127
Total assets	5,763,490	1,802,808	7,566,298	1,046,336
LIABILITIES				
Current liabilities:				
Accounts payable	1,521	849	2,370	2,437
Accrued expenses	18,505	9,816	28,321	3,127
Deposits and other liabilities	15,525	-	15,525	-
Deferred revenue	223,521	22,806	246,327	-
Due to other funds	-	-	-	215,000
Bonds and contracts payable	394,000	25,000	419,000	26,612
Total current liabilities	653,072	58,471	711,543	247,176
Noncurrent liabilities				
Bonds and contracts payable	1,075,000	325,000	1,400,000	89,702
Total noncurrent liabilities	1,075,000	325,000	1,400,000	89,702
Total liabilities	1,728,072	383,471	2,111,543	336,878
NET ASSETS				
Invested in capital assets, net of related debt	3,053,444	974,360	4,027,804	802,813
Restricted for debt obligations	25,000	-	25,000	-
Unrestricted	956,974	444,977	1,401,951	(93,355)
Total net assets	\$ 4,035,418	\$ 1,419,337	\$ 5,454,755	\$ 709,458

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2008

	Enterprise Funds			Internal Service
	Sewer Fund	Water Fund	Total	Funds
OPERATING REVENUES				
Charges for services	\$ 907,997	\$ 339,087	\$ 1,247,084	\$ 375,064
Gain (loss) on sale of assets	-	-	-	14,527
Miscellaneous	6,859	3,733	10,592	3,345
Total operating revenues	914,856	342,820	1,257,676	392,936
OPERATING EXPENSES				
Salaries and wages	158,490	166,088	324,578	67,171
Payroll taxes	11,879	12,116	23,995	4,431
Employee benefits	38,901	47,754	86,655	25,381
Retirement	23,338	22,442	45,780	9,185
Supplies	47,629	31,367	78,996	92,083
Postage	1,407	1,407	2,814	-
Professional and contracted services	27,780	23,758	51,538	32,997
Insurance	8,047	4,492	12,539	17,918
Telephone and communications	3,662	3,069	6,731	1,248
Travel, meals and lodging	-	-	-	227
Professional development	1,301	2,754	4,055	716
Utilities	94,411	49,748	144,159	19,589
Repair and maintenance	29,919	20,085	50,004	76,103
Equipment rental	96,320	68,821	165,141	-
Miscellaneous	17	2,182	2,199	6,192
Depreciation	259,702	49,296	308,998	154,566
Total operating expenses	802,803	505,379	1,308,182	507,807
Operating income (loss)	112,053	(162,559)	(50,506)	(114,871)
NONOPERATING REVENUES (EXPENSES)				
Special assessments	70,386	21,916	92,302	-
Investment earnings	40,492	16,983	57,475	1,633
Other revenue	-	99,486	99,486	-
Interest expense	(82,196)	(20,189)	(102,385)	-
Total nonoperating revenue (expenses)	28,682	118,196	146,878	1,633
Income (loss) before transfers	140,735	(44,363)	96,372	(113,238)
Contributions from other governmental units	-	3,994	3,994	-
Transfers in	-	35,319	35,319	67,600
Transfers (out)	-	-	-	-
Changes in net assets	140,735	(5,050)	135,685	(45,638)
Total net assets-beginning	3,894,683	1,424,387	5,319,070	755,096
Total net assets-ending	\$ 4,035,418	\$ 1,419,337	\$ 5,454,755	\$ 709,458

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

	Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 922,853	\$ 361,330	\$ 1,284,183	\$ 393,145
Payments to suppliers	(317,700)	(248,400)	(566,100)	(213,118)
Payments to employees	(232,608)	(210,160)	(442,768)	(106,168)
Internal activity-payments from (to) other funds	-	-	-	215,000
Net cash provided (used) by operating activities	<u>372,545</u>	<u>(97,230)</u>	<u>275,315</u>	<u>288,859</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Contributions from other governmental units	-	3,994	3,994	-
Nonoperating revenue (expense)	-	99,486	99,486	-
Interfund loans-proceeds and collections	-	35,319	35,319	67,600
Net cash provided by noncapital financing activities	<u>-</u>	<u>138,799</u>	<u>138,799</u>	<u>67,600</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases and construction of capital assets	(67,404)	(45,234)	(112,638)	(417,292)
Proceeds from special assessments	70,386	21,916	92,302	-
Principal paid on capital debt	(344,000)	(25,000)	(369,000)	(23,402)
Interest paid on capital debt	(82,196)	(20,189)	(102,385)	139,716
Net cash used by capital and related financing activities	<u>(423,214)</u>	<u>(68,507)</u>	<u>(491,721)</u>	<u>(300,978)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Net purchase/sales of investments	-	(25,000)	(25,000)	(75,000)
Interest and dividends	40,492	16,983	57,475	1,633
Net cash provided by investing activities	<u>40,492</u>	<u>(8,017)</u>	<u>32,475</u>	<u>(73,367)</u>
Net increase in cash and cash equivalents	(10,177)	(34,955)	(45,132)	(17,886)
Balances-beginning of the year	59,355	35,086	94,441	45,548
Balances-end of the year	<u>\$ 49,178</u>	<u>\$ 131</u>	<u>\$ 49,309</u>	<u>\$ 27,662</u>
Displayed as:				
Cash and cash equivalents	\$ 24,178	\$ 131	\$ 24,309	\$ 27,662
Restricted cash	25,000	-	25,000	-
	<u>\$ 49,178</u>	<u>\$ 131</u>	<u>\$ 49,309</u>	<u>\$ 27,662</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 112,053	\$ (162,559)	\$ (50,506)	\$ (114,871)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	259,702	49,296	308,998	154,566
Change in assets and liabilities:				
Receivables, net	57,029	35,167	92,196	25,048
Inventory	(9,232)	(7,921)	(17,153)	6,756
Prepaid items	2,419	6,362	8,781	1,167
Accounts payable	(2,837)	(1,771)	(4,608)	1,541
Accrued expenses	(1,282)	853	(429)	(348)
Deposits and other liabilities	(45,307)	(16,657)	(61,964)	215,000
Net cash provided (used) by operating activities	<u>\$ 372,545</u>	<u>\$ (97,230)</u>	<u>\$ 275,315</u>	<u>\$ 288,859</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
June 30, 2008

	<u>General Agency Fund</u>	<u>Current Tax Collection Fund</u>	<u>Payroll Imprest Fund</u>	<u>Health Resource Account Fund</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 103	\$ 28,164	\$ 10,907
Total assets	<u>-</u>	<u>103</u>	<u>28,164</u>	<u>10,907</u>
LIABILITIES				
Due to other governmental units	\$ -	\$ -	\$ 5,955	\$ -
Due to other funds	-	103	-	-
Due to others	-	-	22,209	10,907
Total liabilities	<u>-</u>	<u>103</u>	<u>28,164</u>	<u>10,907</u>
NET ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS
June 30, 2008

	Downtown Development Authority	Local Development Finance Authority	Total
Current assets:			
Cash and cash equivalents	\$ 155,695	\$ 410,545	\$ 566,240
Prepaid items	350	-	350
Total current assets	<u>156,045</u>	<u>410,545</u>	<u>566,590</u>
Noncurrent assets:			
Capital assets:			
Land	124,626	-	124,626
Land improvements, net	472,793	-	472,793
Equipment, net	-	-	-
Total capital assets	<u>597,419</u>	<u>-</u>	<u>597,419</u>
Total assets	<u>753,464</u>	<u>410,545</u>	<u>1,164,009</u>
LIABILITIES			
Liabilities:			
Due to other governmental units	33,366	-	33,366
Bonds and contracts payable	70,000	50,000	120,000
Total current liabilities	<u>103,366</u>	<u>50,000</u>	<u>153,366</u>
Noncurrent liabilities			
Bonds and contracts payable	490,000	240,000	730,000
Total noncurrent liabilities	<u>490,000</u>	<u>240,000</u>	<u>730,000</u>
Total liabilities	<u>593,366</u>	<u>290,000</u>	<u>883,366</u>
NET ASSETS			
Invested in capital assets, net of related debt	37,419	-	37,419
Unrestricted	122,679	120,545	243,224
Total net assets	<u>\$ 160,098</u>	<u>\$ 120,545</u>	<u>\$ 280,643</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS
Year Ended June 30, 2008

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Local Development Finance Authority	Total
	<u>Expenses</u>						
Downtown Development Authority							
Community and economic development	\$ 158,632	\$ -	\$ 2,000	\$ 172,136	\$ 15,504	\$ -	\$ 15,504
Local Development Finance Authority							
Community and economic development	16,068	-	-	-	-	(16,068)	(16,068)
Total activities	<u>\$ 174,700</u>	<u>\$ -</u>	<u>\$ 2,000</u>	<u>\$ 172,136</u>	<u>15,504</u>	<u>(16,068)</u>	<u>(564)</u>
General revenues:							
Tax increment					185,890	214,507	400,397
Interest earnings					-	7,966	7,966
Miscellaneous					10,163	-	10,163
Total general revenues					<u>196,053</u>	<u>222,473</u>	<u>418,526</u>
Change in net assets					<u>211,557</u>	<u>206,405</u>	<u>417,962</u>
Net assets-beginning					<u>(51,459)</u>	<u>(85,860)</u>	<u>(137,319)</u>
Net assets-ending					<u>\$ 160,098</u>	<u>\$ 120,545</u>	<u>\$ 280,643</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

A. Reporting Entity

The City of Clare (the “City”) is governed by an elected five-member commission. The City provides services to its various residents in many areas, including law enforcement, health and sanitation, community enrichment and development and human services. As required by GAAP, these financial statements present the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, “*The Financial Reporting Entity*.”

The individual component units discussed below are included in the City’s reporting entity because of the significance of its operational or financial relationships with the City.

Discretely Presented Component Units

The following component units are reported within the “component unit” column in the combined financial statements. A discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City’s financial statements to be misleading or incomplete.

Local Development Finance Authority (LDFA) - The LDFA was created to help finance local industrial development projects. The Authority’s governing body, which consists of nine members, is selected by the City Commission. In addition, the Authority’s budget is subject to approval by the City Commission. The LDFA does not issue separate financial statements.

Downtown Development Authority (DDA) - The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of twelve members, is selected by the City Commission. The City Commission approves the annual budget of the DDA. The DDA does not issue separate financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Complete financial information of the individual component units can be obtained from the from the City's Finance Director.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenue susceptible to accrual include: property taxes, state revenue sharing, reimbursement type grants, charges for services, and interest income.

The City property tax is levied each July 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The 2007 taxable valuation of the City totaled \$82.6 million (\$8.24 million of which relates to an Industrial Facilities Tax designation), on which ad valorem taxes levied consisted of 17.50 mills for City operating purpose, 0.75 mills for streets, 0.25 for sidewalks, and 0.75 for parks. These amounts are recognized in the General Fund, Local Street Fund and Sidewalk Replacement Fund as property taxes and related fees.

The government reports the following major funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Major Street Fund accounts for the receipt and expenditures of State motor fuel taxes which are earmarked by law for major street and highway purposes.

The Local Street Fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law for local street and highway purposes.

The Fire Department Fund is used to account for the activities related for fire protection for the City and neighboring communities.

The government reports the following major proprietary funds:

The Sewer Fund is used to record the revenues and expenses for the operation of the sewer system. Capital assets are recorded within the fund and depreciation is charged.

The Water Fund is used to record the revenues and expenses for the operation of the water system. Capital assets are recorded within the fund and depreciation is charged.

Additionally, the government reports the following fund types:

The Data Processing Fund is an internal service fund, which accounts for the operation of the data processing function within the City. Money for the operation of this fund is supplied from reimbursements from user departments.

The Mobile Equipment Fund is an internal service fund, which accounts for major machinery and equipment purchases and maintenance to provide services to other departments of the City on a cost reimbursement basis.

Agency Funds account for assets held for other governments and other city funds in an agency capacity, including tax collections and payroll and benefit administration.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The sewer and water fund also recognizes the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Sewer and water systems	50 to 75 years
Vehicles	3 to 5 years
Equipment	3 to 5 years

Deferred Revenue—Deferred revenue represent amounts that do not meet the availability criteria for recognition as revenue, such as grant monies received before the expenditure is incurred, and special assessments before the assessment is received.

Compensated Absences (Vacation and Sick Leave)—Vacation and sick leave benefits attributable to the City's governmental funds are recorded as an expenditure and a current liability in the respective funds. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund is recorded. Annual vacation and sick leave does not carryover; it must be used or it is lost.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

Encumbrances—Encumbrances are defined as commitments related to unperformed contracts for goods or services. The City does record encumbrances in the normal course of operating its accounting system, however, none are recorded in the accompanying financial statements.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- Annual budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Annual Informational Budget Summaries are prepared for Debt Service Funds, Capital Project Funds, Enterprise Funds and Internal Service Funds.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

- Budgets can be amended during the year by a majority vote of the City Commission. The activity level in the General Fund and the fund level in the Special Revenue Funds are the the legal level of control.
- Budgets for the General Fund and Special Revenue Funds are prepared on a modified accrual basis. Also, informational budgets for the Debt Service Funds and Capital Projects Funds are prepared on the modified accrual basis, while the Enterprise Fund and Internal Service Fund informational budgets are prepared using the accrual basis of accounting. Both methods are consistent with generally accepted accounting principles (GAAP).
- Budget appropriations lapse at year end.
- The original budget was amended during the year in compliance with local and state laws. The budget to actual expenditures in the financial statements represent the final budgeted expenditures as amended by the City.

B. Excess of Expenditures Over Appropriations for Budgetary Funds

During the year the City incurred expenditures that were in excess of the amounts budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund – City Manager	\$ 115,834	\$ 117,528	\$ (1,694)
General Fund – Fiscal Services	112,500	114,917	(2,417)
General Fund – Police Department	831,097	841,955	(10,858)
General Fund – Building Inspections	55,744	56,069	(325)
Major Streets – State Trunkline	75,862	76,138	(276)

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 3. INVESTMENTS AND DEPOSITS

A. Investments

Under its investment policy, the City restricts its investments to bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of an financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.

As of June 30, 2008, the City of Clare had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity</u>
Repurchase Agreements	<u>\$ 2,225,000</u>	<u>11 Months</u>

Interest Rate Risk-Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than five years from the date of purchase. However, the City may collateralize its repurchase agreements using longer-dated investments not to exceed five years to maturity.

Credit Risk-Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's current investment policy does specify a credit risk rating to be maintained.

Concentration of Credit Risk-The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law. The City's investments include \$2,225,000 of repurchase agreements with Chemical Bank & Trust Company with the underlying issuer an agency of the United States.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 3. INVESTMENTS AND DEPOSITS (Continued)

Custodial Risk-For an investment, is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the City's investments are repurchase agreements with an agency of the United States government as the underlying issuer.

B. Deposits

The City restricts its deposits to banks, savings and loans associations or credit unions, but only if the financial institution is eligible to be a depository of funds belonging to the State under a law or rule of this State of the United States. The City Commission has authorized the following financial institutions as depositories for the City of Clare: Chemical Bank & Trust Company-Clare, Isabella Bank-Clare and Firstbank-Clare.

Custodial Credit Risk-For a deposit, is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are:

- Uncollateralized
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institutions' trust department or agent but not in the name of the local government unit.

C. Year End Deposits

At June 30, 2008, deposits consisted of the following amounts:

<u>Financial Institution</u>	<u>Carrying Amount</u>	<u>Percentage of Deposits</u>
Chemical Bank & Trust Company - Clare	\$ 818,288	80.85%
Isabella Bank - Clare	100,000	9.88%
Firstbank - Clare	71,357	7.05%
Deposits held by others	22,193	2.19%
Petty cash and cash on hand	350	0.03%
Total	<u>\$ 1,012,188</u>	<u>100.00%</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 3. INVESTMENTS AND DEPOSITS (Continued)

	Carrying Amount			
	Primary Government	Component Units	Fiduciary Funds	Total
Petty cash and cash on hand	\$ 350	\$ -	\$ -	\$ 350
Bank deposits	284,231	566,240	39,174	899,645
Certificates of deposit	100,000	-	-	100,000
Cash held by others	22,193	-	-	22,193
	<u>\$ 406,774</u>	<u>\$ 566,240</u>	<u>\$ 39,174</u>	<u>\$ 1,012,188</u>

The bank balances of the primary government deposits is \$384,231, of which \$171,357 is covered by federal deposit insurance. The component unit's deposits had bank balances of \$566,240, of which \$100,000 is covered by federal deposit insurance. The repurchase agreements are not insured by federal deposit insurance and the City's interest in the underlying government security is not perfected.

NOTE 4. CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 3,740,287	\$ 150,000	\$(312,722)	\$ 3,577,565
Subtotal	<u>3,740,287</u>	<u>150,000</u>	<u>(312,722)</u>	<u>3,577,565</u>
Capital Assets Being Depreciated				
Land Improvements	109,268	-	-	109,268
Buildings and Improvements	2,503,150	250,212	(50,000)	2,703,362
Equipment and Vehicles	3,020,445	293,877	(153,850)	3,160,472
Subtotal	<u>5,632,863</u>	<u>544,089</u>	<u>(203,850)</u>	<u>5,973,102</u>
Less Accumulated Depreciation for				
Land Improvements	12,509	6,376	-	18,885
Buildings and Improvements	775,503	81,455	(36,105)	820,853
Equipment and Vehicles	1,805,779	218,388	(153,850)	1,870,317
Subtotal	<u>2,593,791</u>	<u>306,219</u>	<u>(189,955)</u>	<u>2,710,055</u>
Net Capital Assets Being Depreciated	<u>3,039,072</u>	<u>237,870</u>	<u>(13,895)</u>	<u>3,263,047</u>
Governmental Activities Capital Assets— Net of Depreciation	<u>\$ 6,779,359</u>	<u>\$ 387,870</u>	<u>\$(326,617)</u>	<u>\$ 6,840,612</u>

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 53,389	\$ -	\$ -	\$ 53,389
Construction in progress	103,416	-	103,416	-
Subtotal	53,389	-	103,416	53,389
Capital Assets Being Depreciated				
Land Improvements	412,516	-	-	412,516
Buildings and Improvements	4,373,927	59,950	-	4,433,877
Equipment	520,457	-	-	520,457
Infrastructure	6,759,834	156,105	-	6,915,939
Subtotal	12,066,734	216,055	-	12,282,789
Less Accumulated Depreciation for				
Land Improvements	360,791	1,867		362,658
Buildings and Improvements	2,572,362	128,197	-	2,700,559
Equipment	411,808	17,655	-	429,463
Infrastructure	2,835,414	161,280	-	2,996,694
Subtotal	6,180,375	308,999	-	6,489,374
Net Capital Assets Being Depreciated	5,886,359	(92,944)	-	5,793,415
Business-Type Activities Capital Assets-Net of Depreciation	\$ 6,043,164	\$ (92,944)	\$ 103,416	\$ 5,846,804

Depreciation expense was charged to programs of the City as follows:

<u>Governmental Activities</u>	
General Government	\$ 40,710
Public Safety	87,519
Recreation and Culture	23,422
Internal Service Funds	154,568
Total Governmental Activities	<u>\$ 306,219</u>
<u>Business-Type Activities</u>	
Sewer	\$ 259,701
Water	49,298
Total Business-Type Activities	<u>\$ 308,999</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables as of June 30, 2008:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 215,103	Mobile Equipment Tax Collection	\$ 215,000 103
Total	<u>\$ 215,103</u>	Total	<u>\$ 215,103</u>

The outstanding balances between funds results mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur.

Fund	Transfers Out	Fund	Transfers In
General	\$ 335,311	General	\$ 35,000
Cemetery	35,000	Local Streets	90,000
Fire Department	19,680	Fire Department	99,272
		Mobile Equipment	67,600
		Public Safety	49,200
		Water	35,319
		Capital Project	13,600
Total	<u>\$ 389,991</u>	Total	<u>\$ 389,991</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual agreements can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
Capital Lease	6.82%	2008	\$ 68,233	\$ (32,991)	\$ 35,242	\$ 35,242
Installment purchase	3.89%	2010	108,000	(27,000)	81,000	27,000
2004 General Obligation Limited Tax Bonds	4.50%	2034	760,000	(15,000)	745,000	16,000
Installment purchase		2012	139,716	(23,402)	116,314	26,612
			<u>\$ 1,075,949</u>	<u>\$ 98,393</u>	<u>\$ 977,556</u>	<u>\$ 104,854</u>
Business-Type Activities						
Sewer Revenue Bonds	5.00%	2030	\$ 383,000	\$ (4,000)	\$ 379,000	\$ 4,000
2002 General Obligation Limited Tax Bonds	2.50 to 4.125%	2010	590,000	(270,000)	320,000	320,000
Contract Payable	4.00 to 5.85%	2021	425,000	(20,000)	405,000	20,000
2000 General Obligation Limited Tax Bonds	4.95 to 5.55%	2018	225,000	(25,000)	200,000	25,000
2000 General Obligation Limited Tax Bonds	4.75 to 5.55%	2015	190,000	(25,000)	165,000	25,000
Contract Payable	4.00 to 5.85%	2021	375,000	(25,000)	350,000	25,000
			<u>\$ 2,188,000</u>	<u>\$ (369,000)</u>	<u>\$ 1,819,000</u>	<u>\$ 419,000</u>
Component Units						
1990 DDA Bonds	6.10 to 7.45%	2010	\$ 65,000	\$ (20,000)	\$ 45,000	\$ 20,000
1992 DDA Bonds	5.25 to 6.40%	2010	110,000	(35,000)	75,000	35,000
2006 DDA Bonds	3.85 to 4.55 %	2024	455,000	(15,000)	440,000	15,000
1998 Contract Payable	4.05 to 5.10%	2012	340,000	(50,000)	290,000	50,000
			<u>\$ 970,000</u>	<u>\$ 120,000</u>	<u>\$ 850,000</u>	<u>\$ 120,000</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 6. LONG-TERM DEBT (Continued)

Scheduled principal maturities for years subsequent to June 30, 2008, are as follows:

Year Ending June 30	Governmental Activities	Business-Type Activities	Component Units
2009	\$ 104,854	\$ 419,000	\$ 120,000
2010	70,790	103,000	137,000
2011	73,021	108,000	79,000
2012	47,306	115,000	81,000
2013	21,585	110,000	86,000
2014-2018	105,000	441,000	120,000
2019-2023	133,000	340,000	153,000
2024-2028	167,000	122,000	74,000
2029-2033	207,000	61,000	-
2034	48,000	-	-
Total	<u>\$ 977,556</u>	<u>\$ 1,819,000</u>	<u>\$ 850,000</u>

Scheduled interest requirements for years subsequent to June 30, 2008, are as follows:

Year Ending June 30	Governmental Activities	Business-Type Activities,	Component Units
2009	\$ 43,557	\$ 92,605	\$ 39,815
2010	38,205	74,419	32,859
2011	35,159	68,812	24,850
2012	32,059	63,025	21,040
2013	30,384	56,813	17,028
2014-2018	138,150	197,980	62,918
2019-2023	110,880	89,469	34,389
2024-2028	76,365	34,350	3,404
2029-2033	33,570	4,600	-
2034-2034	675	-	-
Total	<u>\$ 539,004</u>	<u>\$ 682,073</u>	<u>\$ 236,303</u>

Interest and fiscal charges for the year totaled \$191,069 for the primary governmental unit and \$33,545 for the component units; no interest costs were capitalized.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 7. CAPITAL LEASE

The City has entered into a lease agreement as lessee for financing the purchase of a fire truck. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligation and the net present value is as follows:

	<u>Year Ended June 30</u>	
	2009	
	\$	37,645
		<hr/>
Total Minimum Lease Payments		37,645
Less: Amount Representing Interest		2,403
		<hr/>
Present Value	\$	35,242
		<hr/> <hr/>

NOTE 8. SEGMENT INFORMATION

The City has issued bonds to finance sewer and water system improvements. Summary financial information for the sewer and water departments are presented below:

Condensed Statement of Net Assets:

	<u>Sewer</u>	<u>Water</u>
Assets		
Current Assets	\$ 1,216,046	\$ 478,448
Restricted Assets	25,000	-
Capital Assets	4,522,444	1,324,360
	<hr/>	<hr/>
Total Assets	5,763,490	1,802,808
	<hr/>	<hr/>
Liabilities		
Current Liabilities	653,072	58,471
Noncurrent Liabilities	1,075,000	325,000
	<hr/>	<hr/>
Total Liabilities	1,728,072	383,471
	<hr/>	<hr/>
Net Assets		
Invested in Capital Assets	3,053,444	974,360
Restricted	25,000	-
Unrestricted	956,974	444,977
	<hr/>	<hr/>
Total Net Assets	\$ 4,035,418	\$ 1,419,337
	<hr/> <hr/>	<hr/> <hr/>

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 8. SEGMENT INFORMATION (Continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Assets:

	Sewer	Water
Operating Revenues	\$ 914,856	\$ 342,820
Depreciation Expense	(259,702)	(49,296)
Other Operating Expenses	(543,101)	(456,083)
Operating Income (Loss)	112,053	(162,559)
Nonoperating Revenue (Expense)		
Investment Earnings	40,492	16,983
Interest Expense	(82,196)	(20,189)
Other Income and transfers	70,386	160,715
Change in Net Assets	140,735	(5,050)
Beginning Net Assets	3,894,683	1,424,387
Total Net Assets	\$ 4,035,418	\$ 1,419,337

Condensed Statement of Cash Flows:

	Sewer	Water
Net Cash Provided by (Used in)		
Operating Activities	\$ 372,545	\$ (97,230)
Noncapital Financing Activities	-	138,799
Capital and Related Financing Activities	(423,214)	(68,507)
Investing Activities	40,492	8,017
Net Increase (Decrease)	(10,177)	(34,955)
Beginning Cash and Cash Equivalents	59,355	35,086
Ending Cash and Cash Equivalents	\$ 49,178	\$ 131

NOTE 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League risk pool program, which operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 10. DEFERRED COMPENSATION PLAN

The City offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The assets of the plans were held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

A summary of the plan's investment activity for the year ended June 30, 2008, follows:

Balance – July 1, 2007	\$ 337,951
Employee Contributions	43,575
Transfers	-
Current Withdrawals	-
Interest and Market Gains	(12,524)
Adjustments/Fees	(1,628)
Balance – June 30, 2008	<u>\$ 367,375</u>

NOTE 11. EMPLOYEES' RETIREMENT PLAN

Plan Description--The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. The report may be obtained by writing to:

Municipal Employee Retirement Systems of Michigan
447 North Canal Street
Lansing, Michigan 48917
(517) 622-4401

Funding Policy--The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment, for the year ended December 31, 2007, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 11. EMPLOYEES' RETIREMENT PLAN (Continued)

Annual Pension Costs—For the year ended June 30, 2008, the City's annual pension contribution was equal to \$167,982, and employee contributions totaled \$48,004. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increase ranging from 0.0% to 4.16%; and 3) various mortality rates, retirement rates and withdrawal rates for members based on experience studies.

Three year trend information as of December 31, 2007 follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Annual Pension Cost	\$ 122,228	\$ 111,674	\$ 109,289
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Accrued Liability	6,037,565	5,282,811	5,005,876
Actuarial Value of Assets	4,513,741	4,286,101	4,061,967
Unfunded (Overfunded) AAL	1,523,824	996,710	943,909
Funded Percentage	74.8%	81%	81%
Covered Payroll	1,060,274	987,420	914,521
UAAL as a Percentage of Covered Payroll	144%	101%	103%

NOTE 12. CONTINGENT LIABILITIES

The City is a defendant in various legal actions in which plaintiffs seek damages of indeterminable amounts, which may exceed insurance coverage where applicable. Litigation is subject to many uncertainties, and the outcome of individual matters cannot be predicted. Accordingly, a reasonable range of liability to the City pertaining to these matters cannot be determined. Management has taken steps to protect the City and believes any liability resulting from cases in which it is involved will not materially affect its financial position.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2008**

NOTE 13. LANDFILL POST-CLOSURE CARE

The City owns and operated the Hatton Township Landfill, which was closed in the early 1980's. Following closure, the landfill was capped. However, there have been claims of contamination from the landfill infiltrating local aquifers and contaminating local private wells.

The City hired a technical consultant to develop an assessment plan to determine the levels of alleged migratory contamination. The Michigan Department of Environmental Quality (DEQ) disagreed with the scope and extent of the City consultant's assessment and assumed the role of performing this assessment in 2000. The DEQ completed its assessment plan in 2003 and found no migratory contamination.

In a subsequent meeting with the City, the State Attorney General's Office has proposed a plan to limit the City's future liability in respect to the landfill, wherein the City would contribute \$230,000 to be held in perpetuity in a designated and agreed-upon, third-party escrow account to defray any future costs and litigation ensuing from contamination caused by the landfill. Concurrently, the City would be required to agree to an annual monitoring program of the landfill at an estimated cost of approximately \$25,000 annually until such time that scheduled sampling supported the elimination of cessation of the monitoring program.

During the current year ended June 30, 2008, the City invested \$28,500 in a certificate of deposit with Firstbank-Clare as the second of eight required contributions and also established the Hatton Township Landfill Fund to account for this investment.

NOTE 14. OTHER POST EMPLOYMENT BENEFITS (OPEB)

In June 2004, the Governmental Accounting Standards Board issued Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The City of Clare does not provide post employment benefits to retirees and will not have to report any costs or liabilities in future periods.

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 1,400,000	\$ 1,400,000	\$ 1,445,129	\$ 45,129
Licenses and permits	32,000	32,000	32,399	399
Federal aid	1,353,500	1,353,500	199,809	(1,153,691)
State aid	348,932	348,932	358,965	10,033
Charges for services	273,900	359,000	338,084	(20,916)
Interest and dividends	50,100	50,100	59,591	9,491
Rents and royalties	-	-	33,581	33,581
Fines and forfeitures	30,000	30,000	16,112	(13,888)
Special assessments	40,000	40,000	20,589	(19,411)
Donations and contributions	11,000	15,900	76,274	60,374
Sale of assets	-	-	150,167	150,167
Miscellaneous	40,000	40,000	28,137	(11,863)
Total revenues	<u>3,579,432</u>	<u>3,669,432</u>	<u>2,758,837</u>	<u>(910,595)</u>
EXPENDITURES				
General Government:				
City commission	27,500	32,000	31,764	236
City manager	108,594	115,834	117,528	(1,694)
Assessor	38,000	39,175	38,996	179
Clerk	89,461	108,000	106,964	1,036
Elections	5,000	2,400	2,317	83
Board of review	1,511	1,011	706	305
Cemetery	61,791	64,791	62,678	2,113
Buildings and grounds	41,159	96,145	81,801	14,344
Fiscal services	96,535	112,500	114,917	(2,417)
All other general government	50,000	67,131	61,997	5,134
Public Safety:				
Police department	791,512	831,097	841,955	(10,858)
Building inspection and regulation activities	55,744	55,744	56,069	(325)
Public Works:				
Solid waste	155,197	168,337	163,473	4,864
Landfill closure	71,976	41,624	39,998	1,626
Public works	40,000	51,000	49,757	1,243
Drains	10,500	10,500	9,701	799
Street lights	65,380	67,850	67,317	533
Community Development:				
Planning and zoning	22,500	19,873	17,289	2,584
Recreation and Culture:				
Parks and recreation	197,038	280,000	278,684	1,316
Airport	160,459	160,459	142,480	17,979
Capital Outlay:				
General government	43,000	43,765	11,917	31,848
Public safety	-	-	-	-
Public works	-	-	-	-
Recreation and culture	1,468,000	1,235,039	264,879	970,160
Debt Service:				
Principal payments	29,000	29,000	28,500	500
Interest payments	-	-	-	-
Total expenditures	<u>3,629,857</u>	<u>3,633,275</u>	<u>2,591,687</u>	<u>1,041,588</u>
Excess (deficiency) of revenues over expenditures	<u>(50,425)</u>	<u>36,157</u>	<u>167,150</u>	<u>130,993</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	207,000	292,000	35,000	(257,000)
Transfers-out	(375,239)	(583,011)	(335,311)	247,700
Total other financing sources and uses	<u>(168,239)</u>	<u>(291,011)</u>	<u>(300,311)</u>	<u>(9,300)</u>
Net change in fund balance	(218,664)	(254,854)	(133,161)	121,693
Fund balances-beginning	1,080,403	1,080,403	1,080,403	-
Fund balances-ending	<u>\$ 861,739</u>	<u>\$ 825,549</u>	<u>\$ 947,242</u>	<u>\$ 121,693</u>

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
State aid	\$ 205,300	\$ 205,300	\$ 179,745	\$ (25,555)
Interest and dividends	2,000	2,000	130	(1,870)
Special assessments	1,000	1,000	1,570	570
Miscellaneous	4,000	4,000	4,999	999
Total revenues	<u>212,300</u>	<u>212,300</u>	<u>186,444</u>	<u>(25,856)</u>
EXPENDITURES				
Street maintenance	85,232	85,467	84,669	798
Administration	12,419	25,260	24,011	1,249
State trunkline operations	59,758	75,862	76,138	(276)
Total expenditures	<u>157,409</u>	<u>186,589</u>	<u>184,818</u>	<u>1,771</u>
Deficiency of revenues over expenditures	<u>54,891</u>	<u>25,711</u>	<u>1,626</u>	<u>(24,085)</u>
OTHER FINANCING SOURCES (USES)				
Transfers-out	<u>(50,000)</u>	<u>(33,660)</u>	-	33,660
Total other financing sources and uses	<u>(50,000)</u>	<u>(33,660)</u>	-	33,660
Net change in fund balances	4,891	(7,949)	1,626	9,575
Fund balances-beginning	<u>22,240</u>	<u>22,240</u>	<u>22,240</u>	-
Fund balances-ending	<u>\$ 27,131</u>	<u>\$ 14,291</u>	<u>\$ 23,866</u>	<u>\$ 9,575</u>

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 56,000	\$ 56,000	\$ 57,784	\$ 1,784
State aid	70,000	70,000	76,007	6,007
Interest and dividends	1,000	1,000	73	(927)
Special assessments	2,000	2,000	16,215	14,215
Miscellaneous	8,500	8,500	427	(8,073)
Total revenues	<u>137,500</u>	<u>137,500</u>	<u>150,506</u>	<u>13,006</u>
EXPENDITURES				
Street maintenance	171,447	160,862	148,729	12,133
Administration	11,449	14,660	13,768	892
Construction	47,616	58,201	58,187	14
Total expenditures	<u>230,512</u>	<u>233,723</u>	<u>220,684</u>	<u>13,039</u>
Deficiency of revenues over expenditures	<u>(93,012)</u>	<u>(96,223)</u>	<u>(70,178)</u>	<u>26,045</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	71,228	140,000	90,000	(50,000)
Transfers-out	-	-	-	-
Total other financing sources and uses	<u>71,228</u>	<u>140,000</u>	<u>90,000</u>	<u>(50,000)</u>
Net change in fund balances	<u>(21,784)</u>	<u>43,777</u>	<u>19,822</u>	<u>(23,955)</u>
Fund balance-beginning	<u>20,002</u>	<u>20,002</u>	<u>20,002</u>	<u>-</u>
Fund balances-ending	<u>\$ (1,782)</u>	<u>\$ 63,779</u>	<u>\$ 39,824</u>	<u>\$ (23,955)</u>

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT FUND
For the Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Charges for services	\$ 176,472	\$ 176,472	\$ 176,411	\$ (61)
Interest and dividends	2,000	2,000	6,351	4,351
Donations and contributions	-	-	1,000	1,000
Miscellaneous	-	-	6,494	6,494
Total revenues	<u>178,472</u>	<u>178,472</u>	<u>190,256</u>	<u>11,784</u>
EXPENDITURES				
Fire operations	198,777	199,357	187,274	12,083
Capital outlay	-	-	-	-
Debt service	68,846	68,846	68,843	3
Total expenditures	<u>267,623</u>	<u>268,203</u>	<u>256,117</u>	<u>12,086</u>
Excess (deficiency) of revenues over expenditures	<u>(89,151)</u>	<u>(89,731)</u>	<u>(65,861)</u>	<u>23,870</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	99,272	99,272	99,272	-
Transfers-out	(19,680)	(19,680)	(19,680)	-
Total other financing sources and uses	<u>79,592</u>	<u>79,592</u>	<u>79,592</u>	<u>-</u>
Net change in fund balances	(9,559)	(10,139)	13,731	23,870
Fund balances-beginning	<u>189,800</u>	<u>189,800</u>	<u>189,800</u>	<u>-</u>
Fund balances-ending	<u>\$ 180,241</u>	<u>\$ 179,661</u>	<u>\$ 203,531</u>	<u>\$ 23,870</u>

CITY OF CLARE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2008

	Drug Forfeiture	Debt Service Fund - Public Safety	Special Revenue Fund - Sidewalk Replacement	Special Revenue Fund- Hatton Township Landfill	Permanent Fund - Cemetery Perpetual Care	Capital Project Fund- Four Street Parking	Capital Project Fund- Facade Improvement	Total Nonmajor Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 2,454	\$ -	\$ 34,499	\$ 57,500	\$ 562		\$ 32,068	\$ 127,083
Investments	-	-	-	-	275,000		-	275,000
Grant receivable	-	-	-	-	-		8,039	8,039
Assessment receivable, net	-	-	8,349	-	-		-	8,349
Total assets	<u>\$ 2,454</u>	<u>\$ -</u>	<u>\$ 42,848</u>	<u>\$ 57,500</u>	<u>\$ 275,562</u>	<u>\$ -</u>	<u>\$ 40,107</u>	<u>\$ 418,471</u>
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accrued expenses	\$ -	\$ -	\$ 144	\$ -	\$ -	\$ -	\$ -	\$ 144
Deferred revenue	-	-	8,349	-	-	-	-	8,349
Total liabilities	<u>-</u>	<u>-</u>	<u>8,493</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,493</u>
Fund balances:								
Unreserved and undesignated	2,454	-	34,355	57,500	275,562	-	40,107	409,978
Total fund balances	<u>2,454</u>	<u>-</u>	<u>34,355</u>	<u>57,500</u>	<u>275,562</u>	<u>-</u>	<u>40,107</u>	<u>409,978</u>
Total liabilities and fund balances	<u>\$ 2,454</u>	<u>\$ -</u>	<u>\$ 42,848</u>	<u>\$ 57,500</u>	<u>\$ 275,562</u>	<u>\$ -</u>	<u>\$ 40,107</u>	<u>\$ 418,471</u>

CITY OF CLARE
COMBINING STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	Drug Forfeiture	Debt Service Fund - Public Safety	Special Revenue Fund - Sidewalk Replacement	Special Revenue Fund- Hatton Township Landfill	Permanent Fund - Cemetery Perpetual Care	Capital Project Fund- Four Street Parking	Capital Project Fund- Facade Improvement	Total Nonmajor Governmental Funds
REVENUES								
Property taxes and related fees	\$ -	\$ -	\$ 19,257	\$ -	\$ -	\$ -	\$ -	\$ 19,257
Federal aid	-	-	-	-	-	24,615	5,513	30,128
Charges for services	2,358	-	-	-	9,200	-	-	11,558
Interest and dividends	27	-	327	-	13,651	63	339	14,407
Special assessments, net	-	-	4,946	-	-	-	-	4,946
Donations and contributions	-	-	-	28,500	-	56,035	16,539	101,074
Miscellaneous	-	-	14	-	-	-	-	14
Total revenues	<u>2,385</u>	<u>-</u>	<u>24,544</u>	<u>28,500</u>	<u>22,851</u>	<u>80,713</u>	<u>22,391</u>	<u>181,384</u>
EXPENDITURES								
Public safety	1,897	-	-	-	-	-	-	1,897
Public works	-	-	12,669	-	-	-	-	12,669
Community development	-	-	-	-	-	172,136	22,052	194,188
Debt service	-	49,200	-	-	-	-	-	49,200
Total expenditures	<u>1,897</u>	<u>49,200</u>	<u>12,669</u>	<u>-</u>	<u>-</u>	<u>172,136</u>	<u>22,052</u>	<u>257,954</u>
Excess (deficiency) of revenues over expenditures	<u>488</u>	<u>(49,200)</u>	<u>11,875</u>	<u>28,500</u>	<u>22,851</u>	<u>(91,423)</u>	<u>339</u>	<u>(76,570)</u>
OTHER FINANCING SOURCES (USES)								
Transfers-in	-	49,200	-	-	-	13,600	-	62,800
Transfers-out	-	-	-	-	(35,000)	-	-	(35,000)
Total other financing sources and uses	<u>-</u>	<u>49,200</u>	<u>-</u>	<u>-</u>	<u>(35,000)</u>	<u>13,600</u>	<u>-</u>	<u>27,800</u>
Net change in fund balances	488	-	11,875	28,500	(12,149)	(77,823)	339	(48,770)
Fund balances-beginning	<u>1,966</u>	<u>-</u>	<u>22,480</u>	<u>29,000</u>	<u>287,711</u>	<u>77,823</u>	<u>39,768</u>	<u>458,748</u>
Fund balances-ending	<u>\$ 2,454</u>	<u>\$ -</u>	<u>\$ 34,355</u>	<u>\$ 57,500</u>	<u>\$ 275,562</u>	<u>\$ -</u>	<u>\$ 40,107</u>	<u>\$ 409,978</u>

CITY OF CLARE
COMBINING STATEMENT OF NET ASSETS -
INTERNAL SERVICE FUNDS
June 30, 2008

	Data Processing	Mobile Equipment	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,111	\$ 21,551	\$ 27,662
Investments	75,000		75,000
Accounts receivable, net	-	1,814	1,814
Inventory	-	4,317	4,317
Prepaid items	126	18,290	18,416
Total current assets	<u>81,237</u>	<u>45,972</u>	<u>127,209</u>
Noncurrent assets:			
Capital assets:			
Land	-	85,000	85,000
Buildings and improvements, net	-	391,799	391,799
Equipment, net	16,643	139,118	155,761
Vehicles, net	-	286,567	286,567
Total noncurrent assets	<u>16,643</u>	<u>902,484</u>	<u>919,127</u>
Total assets	<u>97,880</u>	<u>948,456</u>	<u>1,046,336</u>
LIABILITIES			
Accounts payable	842	1,595	2,437
Accrued expenses	449	2,678	3,127
Due to other funds	-	215,000	215,000
Bonds and contracts payable	-	26,612	26,612
Total current liabilities	<u>1,291</u>	<u>245,885</u>	<u>247,176</u>
Noncurrent liabilities			
Bonds and contracts payable	-	89,702	89,702
Total noncurrent liabilities	<u>-</u>	<u>89,702</u>	<u>89,702</u>
Total liabilities	<u>1,291</u>	<u>335,587</u>	<u>336,878</u>
NET ASSETS			
Invested in capital assets, net of related debt	16,643	786,170	802,813
Unrestricted	79,946	(173,301)	(93,355)
Total net assets	<u>\$ 96,589</u>	<u>\$ 612,869</u>	<u>\$ 709,458</u>

CITY OF CLARE
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2008

	Data Processing	Mobile Equipment	Total
OPERATING REVENUES			
Charges for services	\$ 85,000	\$ 290,064	\$ 375,064
Gain on sale of assets	-	14,527	14,527
Miscellaneous	11	3,334	3,345
Total operating revenues	<u>85,011</u>	<u>307,925</u>	<u>392,936</u>
OPERATING EXPENSES			
Salaries and wages	10,682	56,489	67,171
Payroll taxes	780	3,651	4,431
Employee benefits	2,059	23,322	25,381
Retirement	1,721	7,464	9,185
Supplies	1,577	90,506	92,083
Professional and contracted services	18,926	14,071	32,997
Insurance	354	17,564	17,918
Telephone and communications	-	1,248	1,248
Travel, meals and lodging	-	227	227
Professional development	3	713	716
Utilities	-	19,589	19,589
Repair and maintenance	6,353	69,750	76,103
Miscellaneous	-	6,192	6,192
Depreciation	22,285	132,281	154,566
Total operating expenses	<u>64,740</u>	<u>443,067</u>	<u>507,807</u>
Operating income (loss)	<u>20,271</u>	<u>(135,142)</u>	<u>(114,871)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	1,585	48	1,633
Transfers in	-	67,600	67,600
Total nonoperating revenue (expenses)	<u>1,585</u>	<u>67,648</u>	<u>69,233</u>
Changes in net assets	21,856	(67,494)	(45,638)
Total net assets-beginning	<u>74,733</u>	<u>680,363</u>	<u>755,096</u>
Total net assets-ending	<u><u>\$ 96,589</u></u>	<u><u>\$ 612,869</u></u>	<u><u>\$ 709,458</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Members of the City Commission
City of Clare
Clare and Isabella Counties, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Clare (the "City"), Clare and Isabella Counties, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the City of Clare's basic financial statements and have issued our report thereon dated December 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Clare's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Clare's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Clare's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We found no deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Clare's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Clare's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of City of Clare, in a separate letter dated December 15, 2008.

This report is intended solely for the information and use of management, City Commission, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Burnside & Zong, P.C.

Midland, Michigan
December 15, 2008

**CITY OF CLARE
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

No significant deficiencies or material weaknesses were noted in regards to Internal Control over Financial Reporting or Compliance.

December 15, 2008

To the Members of the City Commission
City of Clare
Clare and Isabella Counties, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare (the "City") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

OTHER MATTERS

The following matters, although not considered significant deficiencies, are matters we felt worthy for your consideration.

Revenues and Expenditure Projections (Repeat Comment)

During our audit, we noted that the City's fire fund has a five-year budget projection for its revenues and expenditures. However, the remaining funds have no such plan in place. We recommend this analysis be part of the budgeting process and estimate revenue and expenditures for four years beyond the current budget cycle for all the City's funds. Following this recommendation will highlight potential financial difficulties and allow Commissioners time to evaluate the effect on City services.

Appropriations in Budgetary Funds (Repeat Comment)

P.A. 2 of 1968, as amended, provides that a governmental unit shall not incur expenditures in excess of amount appropriated. We noted during our audit that the City incurred expenditures in excess of amounts appropriated in some fund and line items. Per the Financial Director most of these differences are the result of updating accounting structure to comply with State's Uniform Chart of Accounts for Counties and Local Units of Governments.

We recommend completion of the account updates in process, and that the budget be amended during the year to account for any account structure updates or expenditures in excess of the original budget amounts. These amendments must be approved by the City Commissioners and documented in the Commission minutes. This will help the City from incurring expenditures in excess of appropriations.

Water Billing (Repeat Comment)

During our audit we noted that there is a continuing variance in the amount of water actually pumped and that billed by the water department. Per discussions with management, it is believed that this difference is due to unaccounted for uses of water by various departments. The City has also added an additional staff member to service water meters and to attend to water distribution issues.

We recommend a monthly monitoring of this variance, and that the City continue to research and account for the currently unaccounted for uses of water.

This communication is intended solely for the information and use of management, City Commission, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Burnside & Long, P.C.